

SCHEDULE III- AN UPDATE

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AREAS OF DISCUSSION

- Some Relevant Definitions
- Legal sanctity of Sch.III-A small peep into relevant sections of CA13
- Schedule – III- structural analysis
- Balance Sheet Items and related disclosures
- Statement of Profit and Loss items and related disclosures
- Additional Regulatory Information
- Connected CARO clauses
- Enhanced scope of audit

REFERENCES

- Shedule III
- Companies(AS)Rules 2021
- GN ON Sch.III by ICAI
- GN ON CARO by ICAI
- BCAJ-various issues
- “Corporate Professionals Today”-Issue No.4,September 25,Page 187

IMPORTANT DEFINITIONS

Section 2(40) Financial Statement

“Financial Statement” in relation to a company, includes—

- BS at the end of the F.Y;
- a Statement of profit and loss, or in the case of a company carrying on any activity not for profit, an I&E A/c for the F.Y;
- Cash Flow Statement for the F.Y;
- Statement of Changes in *Equity, if applicable*; and
- Any explanatory note *annexed* to, or forming part of, any document referred to above.

Provided that the FS, with respect to **OPC, small company, dormant company and private company (if such private company is a start-up)** may not include the cash flow statement;

Section 128. Books of account, etc., to be kept by company

- **Every** company **shall**
- prepare and keep at its RO, BoA and FS for every F.Y
- which give a **true and fair view** of the state of the affairs of the company
- shall be kept on **accrual basis** and
- according to the **double entry** system of accounting

Section 129. Financial statement

- The financial statement shall give a **true and fair view** of the state of affairs of the company or companies,
- Comply with the **AS** notified under **Section 133** and
- Shall be in the form specified in **Schedule III**:
- Items contained in such FS shall be in accordance with the AS.
- At every AGM, BoD shall lay FS for the year.

Section 129. Financial statements etc

- If AS not followed, the co shall disclose the **reasons, deviations & financial effects**
- The FS include **notes** annexed to/forming part of FS(Expl to Sec 129)
- Sec 134(5): DRS- state that in the preparation of FS, applicable AS followed along with explanations for material departures. **T&F view** to be ensured.....
- Sec 143(3)(a): Auditor should **Sought** and Obtained information....
- Sec 143(11): CARO
- Sec 143(12): Fraud Reporting

129A. Periodical financial results-New Provision

- Inserted vide Companies (Amendment) Act, 2020 dated 28.09.2020 with effect from **22.01.2021**.
- The CG may, require such class(es) of unlisted companies, as may be prescribed,—
 - to prepare the financial results of the company on such periodical basis.
 - to obtain approval of the Board of Directors and complete **audit or limited review** of such periodical financial results and
 - file a copy with the Registrar within a period of thirty days of completion of the relevant period.

INTRODUCTION TO SCHEDULE III

COMPANIES ACT 2013

APPLICABILITY OF SCHEDULE III

- Schedule III is applicable for the following **3** segments whose FS are prepared, audited and presented to the Shareholders:
 - **Division I : Companies Governed by AS Rules, 2021**
 - Applicable to Companies whose FS are drawn up with the Companies (Accounting Standards) Rules, 2021
 - **Division II : Companies Governed by Ind AS Rules, 2015**
 - Applicable to Companies whose FS are drawn up in compliance with Companies (Indian Accounting Standards) Rules, 2015.
 - Unlisted cos having **NW of Rs.250 cr** or more but less than 500 cr-mandatory
 - **Division III : NBFC Companies**
 - Applicable to Companies who fall under the scope of Non- Banking Financial Companies (NBFC) whose FS are drawn up in compliance with Companies (Indian Accounting Standards) Rules, 2015.

Structural outlay of Sch.III

- 3 divisions
- Division I
 - General instructions for Preparation of B/S & St. of P&L
 - Part I: B/S
 - General Instructions for Preparation Of B/S
 - Additional Regulatory Information(ARI)-Particulars (i) to (xiv)**
 - Part II: Statement of P&L
 - General Instructions for preparation of CFS

General Instructions

- Compliance with Act including AS require any change in treatment/disclosure including addition/amdt/substitution/deletion of items/heads etc, the same shall be made and Sch.III requirements shall be **modified** accordingly
- Disclosure under Sch.III are **in addition to and not in substitution** of disclosure requirements in CA13
- Addl.disclosures are made in the **notes/additional statements**, unless to be disclosed in the face of FSs
- Notes to accts shall contain ,in addition to that presented in FS and required to give
 - a) **narrative descriptions /disaggregations** of items
 - b) information about items that **do not qualify for recognition** in FS

General Instructions

- Each item in the face of B/S/P&L shall be **cross referenced** to any related info.in the notes
- **Balance** shall be maintained between providing excessive details and not providing important info.as a result of too much aggregation
- Sch.III requirements are the **minimum** requirements
- Unit of measurement **should** be used uniformly in the FS
- Terms used in Sch.III shall be as per the ASs

DATE OF APPLICABILITY OF AMENDED SCH.III

- These amendments are applicable w.e f. **01/04/2021**.
- This means, FS prepared for F.Y 2021-22 shall be based on these amendments.
- However, the Company need to show **comparative figures** for the F.Y 2020-21(previous year figures).
- Therefore the impact of the additional disclosure need to be assessed w.e.f F.Y 2020-21.

PURPOSE OF THE AMENDMENT

- ❖ Integrated approach for disclosure with that of CARO 2020(which being applicable for the period on or after 1-4-21)
- ❖ To know the real ultimate beneficiary in cases where the investments are made through conduits and much more transparent.
- ❖ Adequate disclosures in areas like promoter shareholdings.
- ❖ MSME Payments.
- ❖ Increased disclosure on Trade Receivables and Trade Payables.
- ❖ Loans and advances given to promoters, directors, KMPs and RPs
- ❖ Details on Benami properties held.

PURPOSE OF THE AMENDMENT (Continued)

- Increased disclosures on Capital WIP of projects including which have been delayed and suspended.
- Details of borrowing based on security of Current Assets from banks and Financial Institutions.
- Details relating to wilful defaulters.
- Relationship with Struck off Companies.
- Status of delayed filing of charge and satisfaction.
- Compliance with No. of layers of Company.
- Disclosures of Important Ratios.

NORMS FOR DISCLOSURE

- Schedule III-Minimum requirements
- Schedule III & AS-AS will prevail
- AS & CA13-CA13 will prevail
- If presentation norms not in AS, sch.III should be followed eg.AS-13-CA & NCA
- Additional line item whenever warranted
- Disclosure mandated by other laws to be made in FS
- Apart from compliance with AS/CA13,industry/sector specific disclosures to be catered to-separate line/sub line item advisable
Eg:EBIDTA

DISCLOSURES-B/S ITEMS

Highlights on Balance Sheet items -related disclosures

- Promoter's shareholding
- Current maturities of long-term borrowings
- Trade payables
- Property, Plant and Equipment & Intangible Assets
- Other Non Current assets
- Trade receivables
- Disclosure of Specified Bank Notes (SBN) held and transacted during 8/11/16 to 30/12/16 has been **done away with**.

REGROUPING OF CERTAIN BALANCE SHEET ITEMS

HEADING	AMENDMENT
Under Current Liabilities - Borrowings	The Current Maturities of Long Term Borrowings are to be now regrouped under Borrowings .
Under Current Assets - Loans	Security Deposit which is currently shown as loans is to be regrouped as Other Financial Assets .
Under Current Liabilities - Lease	Other Financial Liabilities which includes Lease liabilities are now required to be regrouped under Lease Liabilities

PROMOTER'S SHAREHOLDING

Existing requirement:

- No specific requirement to disclose the promoter's shareholding in financial statements.

Amended requirement:

- This amendment has now harmonized the regulation 31 of SEBI (Listing Obligation & Disclosure Requirements) Regulation, 2015 which specified that the listed entities are required to make the disclosures relating to promoter's holding.
- Details shall be given separately for each class of shares.

Promoter's shareholding(Item(m))

- A company shall disclose Shareholding of Promoters as at the year end in the **Notes – Share Capital** as below:
- Details shall be given separately for each class of shares
- % changes shall be computed with respect to no.at the beginning of the yr/date of issue

SI No	Promotor Name	No. of Shares Held	% of shares held	% change during the year
Total				

Section 2(69): Promoter

“Promoter” means a person—

- Who has been named as such in a **prospectus** or is identified by the company in the **annual return** referred to in Section 92; or
 - Who has **control over the affairs** of the company, directly or indirectly whether as a **shareholder, director or otherwise**; or
 - In accordance with whose advice, directions or instructions the Board of Directors of the company is **accustomed to act**:
- **Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a **professional capacity****
 - **Verification of secretarial records such as minutes of BM/GM/Registers apart from MRL will be helpful in identification**

CURRENT MATURITIES OF LONG-TERM BORROWINGS

Existing requirement:

- Schedule III requires presenting “current maturities of long-term debt” under “Other Financial Liabilities” grouped under “Current Liabilities”.

Amended requirement:

- Current maturities of long-term borrowings shall be disclosed under “**Short term borrowings**” separately, namely: “Current maturities of long-term borrowings”

TRADE PAYABLES

Existing requirement:

- Trade payables were required to be segregated into :
 - dues of micro enterprises and small enterprises (MSME) and
 - other than micro enterprises and small enterprises.
- Schedule III also required disclosure of specific details which are mandated as per the MSMED Act, 2006.

Amended requirement:

- As per amendment, following additional categorization is to be disclosed :

TRADE PAYABLES

Particulars	Outstanding for following periods from due date of payment				Total
	< 1 Year	1-2 Years	2-3 Years	> 3years	
MSME					
Others					
Disputed MSMEs					
Disputed Others					
Total					

- Similar info shall be given where no due date of payment specified
- In such cases, disclosure shall be from the date of transaction
- Unbilled dues shall be disclosed separately

TRADE PAYABLES

- MSME stands for Micro, Small, and Medium Enterprises. In accordance with the Micro, Small, and Medium Enterprises Development (MSMED) Act in 2006, the enterprises are classified into two divisions.
 - **Manufacturing enterprises** – engaged in the manufacturing or production of goods in any industry
 - **Service enterprises** – engaged in providing or rendering services
- The classification for determining an enterprise (Both Manufacturing or Service) as “Micro”, “Small” and “Medium” are as follows:

Type	Investment in PPE	Turnover
Micro Enterprises	Not more than Rs 1 Crore	Not more than Rs 5 Crore
Small Enterprises	Not more than Rs 10 Crore	Not more than Rs 50 Crore
Medium Enterprises	Not more than Rs 50 Crore	Not more than Rs 250 Crore

Property, Plant and Equipment & Intangible Assets

Existing requirement:

- The term “Property, Plant and Equipment” substituted for Fixed Assets by Notification F No. 17/62/2015-CL-V Vol-1 dated 11-10-18.
- A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.

Property, Plant and Equipment & Intangible Assets

Amended requirement:

- ***Intangible assets*** have been added to non-current assets and ***property, plant, and equipment*** previously the only three non-current assets mentioned under Schedule III.
- In financial statements, ***property, plant, and equipment*** shall be used instead of ***tangible assets***.
- As per the amendment, in reconciliation of gross and net carrying amounts of tangible and intangible assets, an additional line item is required to be added, i.e. amount of change due to revaluation (if change is **10%** or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment).

OTHER NON CURRENT ASSETS

Existing requirement:

- Security deposit was required to be disclosed under Long Term Loans

Amended requirement:

- The amendment requires that **other Non Current assets** shall include:
 - (i) Security deposits
 - (iii) Others (to be specified)

TRADE RECEIVABLE

Existing requirement:

- Aggregate amount of Trade Receivables outstanding for a period exceeding 6 months from the date they are due for payment should be disclosed separately.
- (ii) Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately
- (iii) Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated

TRADE RECEIVABLES-AGEING SCHEDULE

Amended requirement:

Particulars	O/s for following period from due date of Payment					
	< 6M	6M – 1Y	1Y – 2Y	2Y – 3Y	> 3Y	Total
(i) Undisputed T R – Considered Good						
(ii) Undisputed T R – Considered Doubtful						
(iii) Disputed T R – Considered Good						
(iv) Disputed T R – Considered Doubtful						

Unbilled due shall be disclosed separately. Where no due date of payment is specified, disclosure shall be from date of transaction.

DISCLOSURE OF PROFIT AND LOSS ITEMS

Highlight on Statement of Profit and Loss items

- Total Income
- Grants or donation received by Sec 8 co
- Undisclosed income
- CSR
- Crypto currency or virtual currency

Total Income

Existing requirement:

- The Term “Total Revenue” is used for the Total Turnover of the Company.

Amended requirement:

- The Term “**Total Income**” is substituted for “Total Revenue”.

GRANTS OR DONATION RECEIVED

Existing requirement:

- No such disclosures required.

Amended requirement:

- **Section 8** Companies are required to make a new insertion in Schedule of Revenue from operations for “Grants or donation” received.

UNDISCLOSED INCOME(Chapter XIV-B of ITA 61)

Existing requirement: NIL

Amended requirement:

- The Company shall give details of any transaction not recorded in the books of accounts that has been surrendered or disclosed as income during the year in the tax assessments under the **Income Tax Act, 1961** (such as, **search or survey** or any other relevant provisions of the Income Tax Act, 1961),
- unless there is **immunity** for disclosure under any scheme and also shall state whether the previously unrecorded income and related assets have been properly recorded in the books of account during the year.
- Sec 158B(b)-**Money,jewellery,...property,income not properly disclosed under IT Act/false expense/deduction/allowance**
- Vivad se viswas, Voluntary Disclosure Scheme-immunity may arise
- Sec 270A of ITA-Penalty for under reporting & mis reporting of income
- **Voluntarily admitted**

UNDISCLOSED INCOME

CARO Requirement: Clause 3 (viii)

- Whether any transactions not recorded in the books of account have been surrendered or disclosed as income during the year in the tax assessments under the Income Tax Act, 1961 (43 of 1961), if so, whether the previously unrecorded income has been properly recorded in the books of account during the year.

CORPORATE SOCIAL RESPONSIBILITY (CSR): Sec 135

- The amendments are prospective from 22.01.21 and only unspent amt for F.Y 20-21 in respect of other than ongoing projects need to be transferred to funds as per Sch.VII within 6 M, except when there being a provision, for earlier yrs, which remain o/s as on 31.03.21, need to be transferred to separate Bank A/c/Fund as the case may be
- In case of companies covered under Sec 135 , disclosure required for amount of expenditure incurred on csr.
- At least 2% of Average N/P during the 3 immediately preceding F.Ys
- N/P as per Sec 198
- For newly incorporated co, number of years completed to be taken into acct
- CSR should be dealt with as if like a “**Tax**” rather than a “ Social Obligation”
- One off events like marathons,awards,charitable concerts,sponsorship programmes etc –not qualify as CSR exp.
- Activities undertaken in Project/Progrmme mode only permissible
- Expenses incurred in pursuance of legal obligations under Land,Labour /other laws not eligible as CSR exp.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Amended requirement:

- Where the company covered under Section 135 of the CA13, the following shall be disclosed with regard to CSR activities:
 - (i) Amount required to be spent by the company during the year
 - (ii) Amount of expenditure incurred
 - (iii) Shortfall at the end of the year
 - (iv) Total of previous years shortfall
 - (v) Reason for shortfall
 - (vi) Nature of CSR activities

CORPORATE SOCIAL RESPONSIBILITY (CSR)

- (vii) Details of RPTs, e.g., contribution to a trust controlled by the company in relation to CSR expenditure as per relevant AS/Ind AS
- (viii) Where a **provision** is made with respect to a liability incurred by entering into a contractual obligation, the movements in the provision during the year should be shown separately

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CARO : **Clause 3 (xx)**

(a): Whether, in respect of **other than ongoing projects**, the company has transferred unspent amount to a fund specified in Schedule VII to the Companies Act within a period of **six** months of the expiry of the financial year in compliance with second proviso to sub-section (5) of section 135 of the said Act.

(b): Whether any amount remaining unspent under sub-section (5) of section 135 of the Companies Act, pursuant to any **ongoing project**, has been transferred to special account in compliance with the provision of sub-section (6) of section 135 of the said Act

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Unspent CSR Liabilities

Ongoing Projects (Having timelines of > 3yrs excl. Yr of Comm.)

Non Ongoing Projects

Deposit amt in Special Bank A/c within 30 days from end of FY for spending within 3 years

Failure to Spend will result in transfer to a Fund specified in Sch VII within 30 days from the end of the 3rd year

Transfer to a Fund specified in Sch VII

CORPORATE SOCIAL RESPONSIBILITY (CSR)

- Funds specified in Schedule VII

PM National
Relief Fund

Swach Bharat
Kosh

Clean Ganga
Fund

PM CARES
Fund

State Disaster
Management
Authority

Skill
Devolepment
Fund

DETAILS OF CRYPTO CURRENCY OR VIRTUAL CURRENCY

Existing requirement: NIL.

Amended requirement:

- Details of crypto currency or virtual currency where the company has **traded or invested** in crypto currency or virtual currency during the financial year, the following shall be disclosed:
 - Profit or loss on transactions involving crypto currency or virtual currency
 - Amount of currency held as at the reporting date
 - **Deposits or advances** from any person for the purpose of trading or investing in crypto currency/ virtual currency
 - Crypto currency-form of digital /virtual currency generated through a series of written computer codes that rely on cryptography which is encryption and is thus independent of any central issuing authority per se.-GN

ADDITIONAL REGULATORY INFORMATION (ARI)

Highlights on ARI

- Title deeds of immovable properties not held in name of the company
- Revaluation of property, plant and equipment and intangible assets by a registered Valuer.
- Loans and advances Capital work-in-progress (CWIP) and intangible assets under development.
- Details of benami property held

Highlights on ARI

- Registration of charges/satisfaction with RoC
- Compliance with number of layers of companies
- Disclosure of ratios
- Compliance with approved scheme(s) of Arrangements
- Rounding off

TITLE DEEDS OF IMMOVABLE PROPERTIES NOT HELD IN NAME OF THE COMPANY

Existing requirement:

- No such disclosures required under Schedule III.

Amended requirement:

- The company shall provide the following details of all the immovable properties (other than properties where the company is the lessee and the **lease agreements** are duly executed in favour of the lessee) whose title deeds are not held in the name of the company and where such immovable property is **jointly** held with others, details are required to be given to the extent of the company's share.

REVALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS BY A REGISTERED VALUER

Existing requirement: NIL.

Amended requirement:

- The Company shall disclose as to whether the revaluation (where carried out) is based on the valuation by a registered valuer as defined under rule 2 of Companies (Registered Valuers and Valuation) Rules, 2017.
- Two scenarios: **External & Internal Valuation**
- External-check the documentation as to registration under rules
- Internal-exercise professional skepticism & review basis and assumptions

REVALUATION OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

CARO Requirement: Clause 3 (i) (d)

- Whether the company has revalued its Property, Plant and Equipment (including Right to use assets) or intangible assets or both during the year and, if so, whether the revaluation is based on the valuation by a Registered Valuer; specify the amount of change, if change is 10% or more in the aggregate of the net carrying value of each class of Property, Plant and Equipment or intangible assets.
- Since maintenance of records of intangibles a new requirement, many cos my not have proper inventory. One time exercise needed to reconstruct the records & documentary evidences like licenses, agreements, internal SOPs(for internally generated only)

LOANS AND ADVANCES

Existing requirement:

- Schedule III required disclosure of loans to related parties (giving details thereof) and advances to related parties (giving details thereof).

Amended requirement:

- Additionally, following disclosures shall be made where loans or advances in the nature of loans are granted to promoters, directors, key managerial personnel (KMPs) and the related parties (as defined under Companies Act, 2013) either severally or jointly with any other person, that are:
 - Repayable on demand or
 - Without specifying any terms or period of repayment

LOANS AND ADVANCES

Type of borrower	Amount of loan or advance in the nature of loan outstanding	to the total loans and advances in the nature of loans
Promoters		
Directors		
KMPs		
Related parties		

CARO Requirement: Clause 3(iv)

CARO 2020 requires auditors to report whether the company has granted any loans or advances in the nature of loans either repayable on demand or without specifying any terms or period of repayment, if so, specify the aggregate amount, percentage thereof to the total loans granted, aggregate amount of loans granted to Promoters, related parties as defined in 2(76) of the Act.

CAPITAL WORK-IN-PROGRESS (CWIP) AND INTANGIBLE ASSETS UNDER DEVELOPMENT

Existing requirement: NIL.

Amended requirement:

- For capital-work-in progress / intangible assets under development categories namely:
 - Projects in progress and
 - Projects temporarily suspended
- Total shall tally with CWIP amount in the balance sheet.

CAPITAL WORK-IN-PROGRESS (CWIP) AND INTANGIBLE ASSETS UNDER DEVELOPMENT

- The details on the above are required to be disclosed in the notes to FS with ageing disclosure for CWIP and IAUD.
- This disclosure is also one of the First Time introduction to the FS.
- Separate disclosure is called for projects which are suspended by the Company.
- The company may have to share the details with the Auditors about the parameter of each project, cost details, cost overrun, time overrun etc as against the budgeted cost and time plan.
- For a single asset/project, recognized as a CWIP, the ageing for the total amount of CWIP, shall fall into different ageing buckets as at a particular B/S date.

CAPITAL WORK-IN-PROGRESS (CWIP) AND INTANGIBLE ASSETS UNDER DEVELOPMENT

- The company and the Auditor have to work together after sharing the required details so that the required compliance could be met.
- The format is as follows:

CWIP	Amount in CWIP for a period of				*Total
	< 1Yr	1Yr – 2Yr	2Yr -3Yr	> 3Yr	
Projects in Progress					
Projects temporarily suspended					

*Total is to, tally with Capital Work in Progress shown in the Balance Sheet

CAPITAL WORK-IN-PROGRESS (CWIP) AND INTANGIBLE ASSETS UNDER DEVELOPMENT

- For CWIP and IAUD, whose completion is overdue or has exceeded its cost compared to its original plan, the following details shall be given:

CWIP & IAUD	To be completed in			
	< 1 Yr	1 Yr – 2 Yr	2 Yr – 3 Yr	> 3 Yr
Project - 1				
Project - 2				
Project - 3				

Details of projects where activity has been suspended shall be given separately

DETAILS OF BENAMI PROPERTY HELD

Existing requirement:

- No such disclosures required.

Amended requirement:

- Where any proceeding has been initiated or pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and the rules made thereunder, the company shall disclose the following:

DETAILS OF BENAMI PROPERTY HELD

- Details of such property, including year of acquisition
- Amount thereof,
- Details of beneficiaries,
- If property is in the books, then reference to the item in the balance sheet,
- If property is not in the books, then the fact shall be stated with reasons,
- Where there are proceedings against the company under this law as an abetter of the transaction or as the transferor then the details shall be provided.
- Nature of proceedings, status of same and company's view on same.

DETAILS OF BENAMI PROPERTY HELD

CARO Requirement: **Clause 3 (i) (e)**

- Whether any proceedings have been initiated or are pending against the company for holding any benami property under the Benami Transactions (Prohibition) Act, 1988 (45 of 1988) and rules made there under, if so, whether the company has appropriately disclosed the details in its financial statements
- In respect of property held jointly with others, where the TDs are not held in co's name, details are to be disclosed to the extent of Co's share
- If the co has changed its name, disclosure required till the new name appeared in TDs.
- If properties are not reflected in the books, apart from normal procedures like review of minutes of BoD/AC etc list of all pending litigations to be collected and reviewed apart from MRL. Independent confirmation from legal counsel can also be solicited(SA-501-Audit Evidence-Specific Consideration for Selected Items)

DETAILS OF BENAMI PROPERTY HELD

- Reporting under this clause is required only where proceedings are **initiated or pending** against the co as a “**Benamidar**” but not as a beneficial owner. Simply received notice-no reporting needed.
- **Benamidar** : Sec 2(10) of Prohibition of BPT Act 1988: Means a person or a fictitious person, as the case may be, in whose name the benami property is transferred or held and includes a person who lends his name
- If properties are not reflected in the books, apart from normal procedures like review of minutes of BoD/AC etc list of all pending litigations to be collected and reviewed apart from MRL.Independent confirmation from legal counsel can also be solicited(SA-501-Audit Evidence-Specific Consideration for Selected Items)

WILFUL DEFAULTERS

Existing requirement:

- No such disclosures required.

Amended requirement:

- Where a company is declared as a “wilful defaulter” by any bank, financial Institution or other lender, the following details shall be given:
 - Date of declaration as “Willful Defaulter”.
 - Details of defaults (Amount and Nature of defaults).
- “Willful Defaulter” here means a person or an issuer who or which is categorized as a willful defaulter by any bank or financial institution (as defined under the Act) or consortium thereof, in accordance with the guidelines on willful defaulters issued by the RBI.

WILFUL DEFAULTERS

- Wilful defaulters-need to be reported under cl.3(ix)(b)-date of declaration, details of default to be reported.(Please refer RBI Circular RBI/2014-15/73DBR No CID.BC.57/20.16.003/20014-15 dated 01.07.2014)
- The key trigger points on WD are **diversion of funds & siphoning of funds**. Utilization of STW funds for LT Purposes is an example of diversion whereas Bank finance used for purpose unrelated to operations is siphoning

CARO requirement: **Clause 3 (ix) (b)**

- Auditor is required to report whether the company is a declared wilful defaulter by any bank or financial institution or other lender.

Wilful defaulter-Indications

- The co defaulted in payment/repayment obligations despite having capacity to honour
- Defaulted in meeting pay/repayment obligations and not utilized the funds for the specific purpose and diverted fund
- Defaulted in meeting pay/repayment obligations and siphoning of fund: the co not utilized for the specific purpose and the funds not available with the co
- Defaulted in meeting pay/repayment obligations, disposed of or removed fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of bank/lender.
- Track record of borrowers to be considered rather than isolated transactions/incidents
- The default should be intentional, deliberate & calculated

RELATIONSHIP WITH STRUCK OFF COMPANIES

Existing requirement: NIL.

Amended requirement:

- Where the company has any transactions with companies struck off under Section 248 of the CA13 or Section 560 of CA56, the company shall disclose the following details:
- Non payment of subscription by subscribers to MoA & non filing of declaration within 180 days- added since 2-11-18 Sec 248(1)(d)
- Co is not carrying on business/operation as revealed after physical verification by RoC-added since 2-11-18 Sec 248(1)(e) r.w Sec 12(9)
- Name need not be included for those cos struck off during the F.Y, but an order had been passed by any adj. authority like NCLT restoring co's name before approval of FS

RELATIONSHIP WITH STRUCK OFF COMPANIES

Name of Struck off Company	Nature of Transactions with Struck off Company	Balance Outstanding	Relationship with the Struck off company, if any, to be disclosed
	Investment in Securities		
	Receivables		
	Payables		
	Share held by Struck off company		
	Other O/s balance (to be specified)		

REGISTRATION OF CHARGES OR SATISFACTION WITH REGISTRAR OF COMPANIES

Existing requirement:

- No such disclosures required.

Amended requirement:

- Where any charges or satisfaction yet to be registered with Registrar of Companies beyond the statutory period, details and reasons thereof shall be disclosed.

COMPLIANCE WITH NUMBER OF LAYERS OF COMPANIES

Existing requirement:

- No such disclosures required.

Amended requirement:

- Where the company has not complied with the number of layers prescribed under Sec 2(87) of the Act read with Companies (Restriction on number of Layers) Rules, 2017, the name and CIN of the companies **beyond** the specified layers and the relationship/extent of holding of the company in such downstream companies shall be disclosed.

Section 2 (87): Subsidiary company

- “Subsidiary company” or “subsidiary”, in relation to any other company (that is to say the holding company), means a company in which the holding company:
 - Controls the composition of the Board of Directors; or
 - Exercises or controls more than one-half of the [total voting power] either at its own or together with one or more of its subsidiary companies:
- Provided that such class or classes of holding companies as may be prescribed shall not have **layers** of subsidiaries beyond such numbers as may be prescribed.
- Normally **2** layers a co can have except Banking co, NBFC, Insurance Co, Govt co.
- The rule shall not affect a co from acquiring a co incorporated outside India with subsidiaries beyond 2 layers as per laws of that country.
- One layer which consists of one or more **WOS** shall not be considered for the computation of layers.

DISCLOSURE OF RATIOS

Existing requirement:

- No such disclosures required.

Amended requirement:

In line with Sch.V of SEBI LODR

- The company shall explain the items included in numerator and denominator for computing the below ratios.
- Further explanation shall be provided for any change in the ratio by more than **25%** as compared to the preceding year.
- The “Financial Assets” & “Financial Liabilities” to be understood based on the definition in IndAS-32 which invariably include contractual rights and obligations respectively.
- Financial liabilities to be considered based on legal form rather than substance of arrangements. Eg. Convertible Debentures
- Proper classification of Current & Noncurrent items inevitable for Ratio analysis
Provision for leave encashment may be current liability but may not be fully payable within one year-treat accordingly in ratio analysis

DISCLOSURE OF RATIOS

- The companies are required to disclose the following ratios:

Current Ratio
(CR = CA / CL)

Debt – Equity Ratio
(DE Ratio =
TD/SHE)

Debt Service
Coverage Ratio
(DSCR = Erngs
Avlbe for DS/DS)

Return on Equity
Ratio
(ROE = NPAT-Pre
Dvd/ Avg SHE)

Inventory Turnover
Ratio
(ITR = COGS or
Sales /AI)

Trade Receivables
Turnover Ratio
(TRTR = NCS/ATR)

Trade Payables
Turnover Ratio
(TPTR = NCP/ATP)

Net Capital
Turnover Ratio
(NCTR = Net Sales
/Avg WC)

Net Profit Ratio
(NPR= NP/Net
Sales)

Return on Capital
Employed
(ROCE = EBIT/CE)

Return on
Investment
(RoI = Gen Reserve
& Surplus/Col)

COMPLIANCE WITH APPROVED SCHEME(S) OF ARRANGEMENTS

Existing requirement:

- No such disclosures required.

Amended requirement:

- Where the Scheme of Arrangements has been approved by the Competent Authority in terms of sections 230 to 237 of the Companies Act, 2013, the company shall disclose that the effect of such Scheme of Arrangements have been accounted for in the books of account of the company 'in accordance with the Scheme' and 'in accordance with accounting standards' and deviation in this regard shall be explained.

UTILIZATION OF BORROWED FUNDS AND SHARE PREMIUM

Existing requirement:

- No such disclosures required.

Amended requirement:

- Following disclosures are called for where the Funds are given/received by a company which are to be given as loan, investment, security or guarantee to a third company via an intermediary company to the ultimate beneficiary.

UTILIZATION OF BORROWED FUNDS AND SHARE PREMIUM

Amended requirement: (Continued)

- Disclosure is required to be made by the company and as well by the intermediary company.
- Disclosure is called for:
 - The details of Funds Exchange
 - Details of Ultimate beneficiaries and compliance with FEMA, 1999 & Prevention of Money Laundering Act, 1992

ROUNDING OFF

Existing requirement:

- Currently, depending upon the turnover of the company, the figures appearing in the FS are required to be rounded off.

Amended requirement:

- As per amendment, depending upon the **total income** of the company, the figures appearing in the FS are required to be rounded off.
- Total income is sum of revenue from operations and other income.

ROUNDING OFF

- Depending upon **Total Income** of the company rather than turnover, the figures **shall** be rounded off(Replacing turnover and may respectively).

Total Income	Rounding Off
Less than 100 Crores	To the nearest hundreds, thousands, lakhs or millions or decimals thereof
More than 100 Crores	To the nearest lakhs, millions, or crores or decimal thereof

- Once a unit of measurement is used, it **should** be used uniformly in the FS.

AUDITOR NEED TO HAVE MORE CAUTIOUS APPROACH

- Have exhaustive checklist
- Train our staff properly
- Collect maximum substantiating evidence
- Need to have basic idea about other laws
- Obtain an all encompassing MRL, eventhough not an evidence substitute
- Have a holistic view as to CARO/Sch.III/IT Act etc
- Cost of compliance more for cos, especially small cos
- Deterrent for enhancement of fee despite additional work burden

Thank you



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